

# **REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON EZINQOLENI MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Ezingoleni Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Basis for qualified opinion**

#### **Property, plant and equipment**

6. I was unable to obtain sufficient appropriate audit evidence for the restatement in the corresponding figure of property, plant and equipment. As described in note 25 to the financial statements, the restatement of R15,123 million was made in order to rectify a prior year misstatement as a result of GRAP 17 implementation. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable

assurance that the assets were complete and properly valued. Consequently, I was unable to confirm the existence, completeness and valuation of and rights pertaining to these newly identified assets disclosed in the annual financial statements.

#### **Qualified opinion**

7. In my opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

#### **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Irregular expenditure**

9. As disclosed in note 30 to the financial statements, irregular expenditure to the amount of R271 606 was incurred as a result of proper procurement processes not followed.

#### **Unauthorised expenditure**

10. As disclosed in note 28 to the financial statements, unauthorised expenditure to the amount of R3,137 million was incurred as a result of expenditure exceeding the approved budget for operating expenditure.

#### **Additional matters**

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Material inconsistencies in other information included in the annual report**

12. I have not obtained the other information included in the annual report for my review and as such have not been able to identify any material inconsistencies with the financial statements

#### **Unaudited supplementary schedules**

13. The supplementary information set out on pages ... to ... do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

14. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

#### **Predetermined objectives**

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is

consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information*.

The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

17. The material findings are as follows:

### **Usefulness of information**

#### **Consistency**

18. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 27,8% of the reported objectives, indicators, targets are not consistent with the objectives, indicators, targets as per the approved integrated development plan. This is due to the lack of or limited review/monitoring of the completeness of reporting documents by management.

### **Compliance with laws and regulations**

19. I performed procedures to obtain evidence that the municipality had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

#### **Budgets**

20. The municipality incurred capital expenditure that was not budgeted for, in contravention of section 15 of the MFMA.

### **Annual financial statements and performance report**

21. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors affecting property, plant and equipment were not adequately corrected, which resulted in the financial statements receiving a qualified opinion. Material misstatements identified by the auditors affecting irregular expenditure, unauthorised expenditure and commitments were corrected.

### **Procurement and contract management**

22. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of supply chain management (SCM) regulation 17(a).

23. Awards were made to service providers who are persons in the service of other state institutions or whose directors/ principal shareholders are persons in service of other state institutions, in contravention of SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

### **Expenditure management**

24. The accounting officer did not take reasonable steps to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.

### **Asset management**

25. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality, as required by section 63(2)(a) of the MFMA.

### **Internal control**

26. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

27. The accounting officer and delegated officials did not exercise oversight responsibility over procurement of goods and services to ensure that they complied with the requirements of municipal SCM regulations. There were delays and inconsistencies regarding predetermined objectives documentation and reports.

### **Financial and performance management**

28. Management did not review the financial statements and report on predetermined objectives prior to submission for audit. An adequate process was not in place to keep accurate and reliable supporting documentation for assets.

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*